

Message Text

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C O N F I D E N T I A L JAKARTA 2059

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TAGS: ENRG, ID

SUBJECT: CALTEX-GOI DISCUSSIONS

REF: JAKARTA 1625, JAKARTA 2017

PROPRIETARY INFORMATION INVOLVED, PLEASE PROTECT

1. SUMMARY: AS PROMISED REF B, FOLLOWING INFORMATION IS CONDENSED VERSION OF CALTEX'S BASIC PROPOSAL AND BACKUP ANALYSIS USED TO SUPPORT ITS ARGUMENTS.

CHIEF ELEMENT IN CALTEX'S POSITION IS THAT \$1.00 INCREASE IN GOVERNMENT'S SHARE OF PER BARREL REVENUE WILL CAUSE A) IMMEDIATE DECREASE IN LIFTINGS OF SO-CALL "MARGINAL" OIL WHICH CALTEX CALCULATES AT 61 MILLION BARRELS/YEAR; B) CURTAILMENT OF CALTEX'S \$400-\$500 MILLION DOLLAR INVESTMENT PROGRAM AIMED AT IMPROVING SECONDARY AND TERTIARY RECOVERY FROM GIANT MINAS FIELD AND C) NON-LIFTING OF AN ADDITIONAL 10 MILLION BARRELS/YEAR OF "POTENTIAL INCREMENT OIL" WHICH CALTEX HAS SCHEDULED FOR 1976 IN EFFORT GENERATE ADDITIONAL REVENUE FOR GOI. CALTEX ARGUES CUT-BACK OF A PLUS C ABOVE WOULD COST GOI \$712 MILLION IN LOST GROSS REVENUES. END SUMMARY.

2. CALTEX DEFINES "MARGINAL" OIL AS THAT PORTION OF ITS TOTAL OFFTAKE WHICH CALTEX IS OBLIGED TO PRODUCE IN ORDER TO HONOR ITS CURRENT LIFTING SCHEDULE OF 311 MILLION B/Y WITH GOI BUT
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WHICH CALTEX CANNOT SELL IN ITS NORMAL, PREFERRED MARKETS I.E.,

JAPAN AND U.S. WEST COAST. CALTEX ARGUES THAT IT MUST TAKE THIS OIL TO /UNECONOMICAL" OUTLETS SUCH AS U.S. GULF AND EAST COASTS AND CARIBBEAN WHERE IT MUST COMPETE WITH LOWER PRICED WEST AFRICAN AND IRANIAN CRUDES.

3. CALTEX HAS PREPARED FOLLOWING ANALYSIS TO SUPPORT ITS POSITION REGARDING "MARGINAL" OIL. CALTEX SAYS EXPORTS TO WESTERN HEMISPHERE MARKETS AMOUNTING TO 61 MILLION B/Y ENTAIL TOTAL LOSSES OF \$86 MILLION OR \$1.41/BARREL ON WEIGHTED BASIS. CALTEX DEDUCTS THIS "OFFSHORE LOSS/ FROM ITS NET PER BARREL PROFIT, CURRENTLY \$2.31, FOR \$.90/BARREL FIGURE. CALTEX THEN SUBTRACTS ITS 1976 PER/BARREL INVESTMENT FIGURE OF \$.73 PLUS \$.15 PER BARREL "SHIFT" WHICH REPRESENTS AMOUNT CALTEX WOULD BE WILLING TO GIVE GOI IN EFFORT TO BE REPOSIVE TO GOVERNMENT'S WISH FOR GREATER PER BARREL PROFIT REVENUE. THIS YIELDS \$.02/BARREL CASH FLOW ON ALL "MARGINAL EXPORTS." CALTEX ARGUES THAT ADDITIONAL "SHIFT" OF \$.85 (REPRESENTING REMAINDER OF \$1.00 PER BARREL PROFIT CUT) SOUGHT BY GOI WOULD RESULT IN NEGATIVE CASH FLOW OF \$.83 PER BARREL. THIS WOULD BE UNACCEPTABLE AND WOULD CAUSE "DISAPPEARANCE" OF THIS PRODUCTION, THIS COSTING GOI \$610 MILLION IN REVENUES (ASSUMING GOI PER BARREL TAKE OF ABOUT \$10). CALTEX BACKS UP THIS ARGUMENT BY SHOWING THAT 1975 CRUDE DELIVERIES TO JAPAN DECREASED BY 40 PERCENT BECAUSE OF SOFT MARKET CONDITIONS.

4. IN EFFORT RESPOND TO GOVERNMENT'S DEMAND FOR GREATER REVENUES, CALTEX HAS PRESENTED FOLLOWING OPTIONS FOR GOVERNMENT'S CONSIDERATION:

A. BASE CASE -- THIS POSITION IS BASED ON PROPOSED 1976 LIFTING SCHEDULE REQUIRED TO MEET SHARE-HOLDERS' AND PERTAMINA'S MARKETING REQUIREMENTS. THIS "AS IS" SITUATION STATES MAXIMUM PRODUCTION POTENTIAL FOR 1976 FROM CALTEX AREAS IS ESTIMATED AT 311 MILLION B/Y. HOWEVER, TOTAL CURRENT MARKETING REQUIREMENTS OF ALL OFFTAKERS CALL FOR LIFTINGS OF ONLY 301 MILLION B/Y. HENCE, 10 MILLION B/Y WOULD BE SHUT-IN.

B. OPTION I -- CALTEX WOULD ENDEAVOR TO LIFT THIS EXTRA 10 MILLION BARRELS/YEAR AND THUS GENERATE ADDITIONAL \$100 MILLION IN REVENUE FOR GOI. TOTAL

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PRODUCTION WOULD BE 311 MILLION BARRELS, GIVING GOI REVENUES OF \$2.462 BILLION. (THIS FIGURE ALSO INCLUDES REVENUES FROM PRODUCTION-SHARING AGREEMENTS WITH CALTEX.)

C. OPTION II -- CALTEX WOULD PRODUCE 311 MILLION/BARRELS PLUS ADDITIONAL 10.2 MILLION BARRELS. TOTAL GOI REVENUE WOULD BE \$2.565 BILLION.

D. OPTION III -- THIS CASE CALCULATES EFFECT OF INCREASE

OF \$1.00/BARREL IN GOVERNMENT TAKE. ACCORDING TO
CALTEX ANALYSIS, THIS WOULD RESULT IN PRODUCTION
CUTBACK BY 61 MILLION B/Y OF "MARGINAL" OIL PLUS
SHUT-IN OF 10.2 MILLION B/Y "UNSCHEDULED LIFTINGS"
IN OPTION II. THIS WOULD RESULT IN LOSS OF \$712
MILLION REVENUES TO GOVERNMENT WHICH WOULD ONLY
PARTIALLY BE OFFSET BY INCREASED PROFITS OF \$240
MILLION ON REMAINING 240 MILLION B/Y PRODUCTION.

(N.B.) THESE FIGURES WERE EXTRACTED FROM CALTEX'S PROPOSAL WHICH WAS
PRESENTED TO GOI LAST DECEMBER. IN PROVIDING EMBASSY WITH DATA,
SOCAL AND TEXACO REPS INDICATED THERE HAD BEEN SOME MINOR REVISION
IN ABOVE FIGURES.

5. COMMENT: CALTEX' BASIC RESPONSE THAT GOI DEMAND FOR INCREASE
IN GOVERNMENT'S TAKE WILL SERIOUSLY JEOPARDIZE THEIR INVESTMENT
PROGRAM AS WELL AS MAKING IT UNECONOMICAL TO PRODUCE ADDITIONAL
OIL HAS MERIT. HOWEVER, ARGUMENTS PUT FORTH BY SOCAL-TEXACO
TO SUPPORT THEIR CASE DO NOT ADDRESS SEVERAL KEY POINTS AT
ISSUE. THESE ARE: (1) ARGUMENT THAT CALTEX PROFITS APPEAR "VERY
HIGH" BY BOTH HISTORICAL STANDARDS AND INTERNATIONAL COMPARISON.
ARGUMENT HAS OBVIOUS POLITICAL APPEAL AND CALTEX MUST ADDRESS
THIS POINT IN POSITIVE TERMS OR RISK BEING LABELED NON-RESPONSIVE.
(2) ARGUMENT THAT INVESTMENT COST FOR SECONDARY RECOVERY SHOULD BE
RELATED TO PROFITS FROM EXPECTED INCREASED PRODUCTION THAT WILL
RESULT FROM THESE INVESTMENTS RATHER THAN TO PROFITS FROM
EXISTING PRODUCTION. CALTEX POSITION IMPLIES THAT UNLESS
INVESTMENTS FULLY COVERED BY CURRENT CASH FLOW THEY WILL
NOT MAKE THEM. OR ALTERNATIVE, IF INVESTMENTS FULLY COVERED BY
CASH FLOW, THEY WILL MAKE THEM REGARDLESS OF THEIR PROFITABILITY.
(3) NEED FOR SUPPORTING DATA TO JUSTIFY CALTEX ASSERTION THEY
MUST USE EXISTING PROFITS TO ABSORB LOSSES OF \$1.41/BBL ON U.S.
GULF AND EAST COAST SALES, \$.58/BBL ON WEST COAST
AND HAWAII SALES, AND \$.34/BBL ELSEWHERE. FURTHERMORE, THERE
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APPEARS SOME ELEMENTS OF INCONSISTENCY IN CALTEX STAND ON SO-
CALLED "MARGINAL OIL." SINCE CALTEX I.E., SOCAL-TEXACO, IS REALLY
ITS OWN CUSTOMER FOR ITS SHARE OF INDONESIA CRUDE, PRESUMABLY
THIS OIL COULD BE MOVED THROUGH INTRA COMPANY CHANNELS OR
INVOICED AT NEAR COST LEVELS ON ARMS-LENGTH BASIS TO MARKETING
AFFILIATES. IT IS OUR IMPRESSION THAT SOCAL AND TEXACO HAVE
IN RECENT MONTHS ORIENTED THEIR OFFTAKE TOWARD INDONESIA
BECAUSE OF MORE FAVORABLE PROFIT SPLIT. FACT THAT CALTEX IS
MOVING THIS "MARGINAL" OIL INDICATES SOME PROFIT IS BEING EARNED
OR COMPANY, AS IT HAS RIGHT TO DO IN ITS QUARTERLY CRUDE EVALUATION
SESSIONS, WITH GOI, COULD ELECT TO SIMPLY SHUT-IN THIS
AMOUNT. END COMMENT.
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